



The Real Estate ANALYST

JUNE 28
1960

Volume XXIX

Number 26

As I see it

HOW HIGH WILL THE SIXTIES SOAR ? (IN TWO PARTS) (PART II)

I N part I, I discussed the population outlook for the 1960's and the effect that the increases in population would probably have on real estate and construction. In that bulletin I emphasized the fact that the great increases in population in the period ahead will be in the nonproductive ages, while those persons in the age groups which furnish most of the workers in our economy will increase very little. I stressed the fact that it takes 43 times as many persons under 25 years of age and 11 times as many persons 60 years of age and over to produce the same number of mortgages as persons in the 35- to 39-year age group. If the hope for the "Soaring Sixties" rests primarily on population increase, I cannot see how increasing the number of mouths would step up our prosperity if we did not increase the number of hands.

The second factor which is fundamental to any discussion of the 1960's is the public and private debt which we have accumulated. By 1962 net public and private debt in the United States will pass the trillion dollar level. From 1951, when it equaled \$524 billion, to 1962 it will double. While the Federal debt has increased 202 times since 1916, it cannot be blamed for the recent increases in the general debt picture. In the last 9 years the Federal debt has increased by only 11.3%. On the other hand, urban real estate mortgage debt of noncorporate borrowers has increased from \$59.4 billion in 1950 to \$160.8 billion in 1959. This is an increase of 171%. In 1950, urban real estate mortgage debt comprised 12.1% of the total net debt, public and private, in the United States. By 1959 it had risen to 19.0%, the highest percentage of the total debt it has formed in any year as far back as the figures go. The percentage increase in real estate debt during this period was greater than in any other segment of the debt picture.

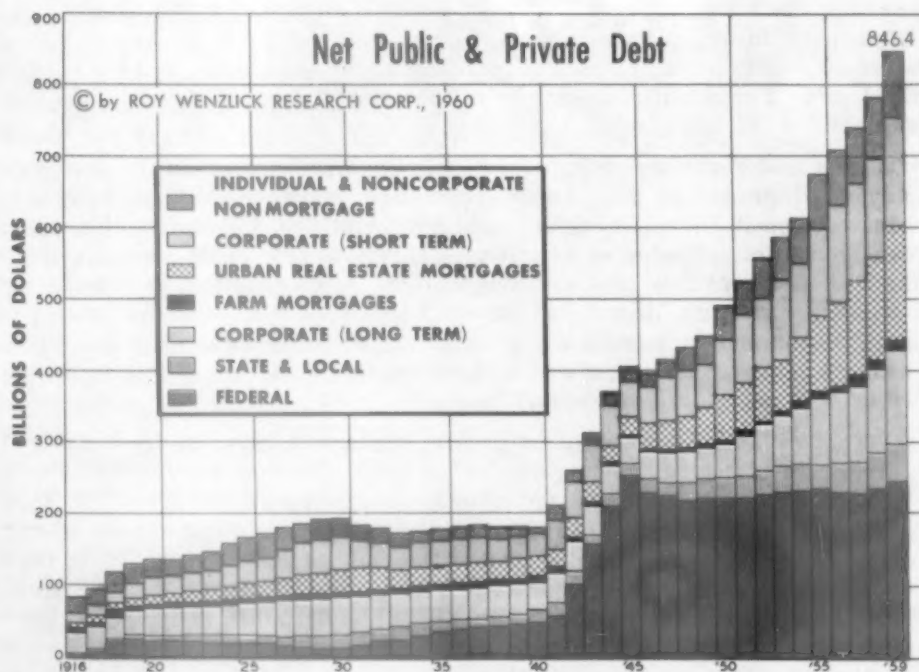
The only other time when urban real estate mortgages secured a very large percentage of lendable funds was in the 1920's and the very early 1930's. In 1920, 8.6% of all debt consisted of urban real estate mortgages. By 1929 this had increased to 16.4%. By 1931 the drastic depression had caused other types of debt to be reduced, causing real estate debt to increase to 17% of the total. In 1945 real estate debt equaled only 6.6% of all debt in the United States. By 1955 it had climbed to 16.2%, and in 1959 it had climbed to 19.0%. This comparison with the period preceding and following the big depression does not imply that I believe the present situation is similar. It does indicate, however,

that real estate debt at the present time is unusually heavy in relationship to other varieties of debt.

While the Federal debt has not been increasing rapidly in the recent past, it can be very troublesome in the immediate future since \$80 billion of the \$243 billion owed on the Federal debt in 1959 comes due in 1960. Because of the unwise Congressional limits on the rate of interest the Federal Government may pay, this \$80 billion will have to be financed largely in the short-term money markets. Short-term debt is more inflationary than long-term debt.

It seems to me that while we have been making a valiant effort to hold down Government expenditures and to live within our budget, we are going to find it extremely difficult to do. Local and State public debt has increased 2.4 times since 1950, and is second only to real estate in its rate of increase. I am afraid that after a relatively short period, inflation will again become the controlling factor in our economy, but this time it is apt to be more serious than it was when we started with little indebtedness. Insofar as real estate is concerned, however, it will increase replacement cost and will, therefore, tend to stabilize and even increase the value of existing properties in dollars.

A third factor which will affect the economy and real estate in the 1960's will be the international situation. While it seems unlikely that any major shooting war will develop, there can be no question of the fact that international tensions are greater than they have been at any time since the end of World War II. It seems logical to expect that Government expenditures for



defense and for all items which would increase our ability to protect our way of life will increase greatly during this period. Whether the public will have the fortitude to be willing to finance these expenditures out of current income is doubtful. It seems more likely that our budget will again be thrown out of balance and that our Federal debt will increase.

The great difficulty with further inflation is that it will have a tendency to increase imports and decrease exports, a trend which has been in existence for some time. This means that the amounts we owe other countries, together with our foreign aid, will exceed the amounts that other countries owe us, and these accounts are balanced over the long period by a movement of gold. We have been losing gold steadily and further inflation will accelerate the loss. There is a general attitude to hush up a discussion of the possibility that gold may have to be revalued before we can stabilize our exports, but this remains, to my way of thinking, a distinct possibility.

A fourth factor which will influence the 1960's is the farm situation. For more than a generation the Federal Government has subsidized the farmer to allow the marginal operator to stay in production when he should have left the farm and become an industrial worker. This was being done at the same time that the Department of Agriculture and the State-supported agricultural schools were teaching young farmers how to produce more per acre at lower cost. The inevitable result has been a tremendous surplus, raised at Government expense, and overhanging the market, acting as a depressant on price.

When the Federal census was made in 1820 there were 2,880,000 gainful workers in the labor force in the United States. Of these, 2,070,000, or 72%, were engaged in agriculture. At that time, with the farm machinery then available, the fertilizers, or lack of fertilizers then obtainable, and the seeds in general use, it apparently took most of the employed population to feed themselves and the relatively small number of nonfarm gainful workers.

One hundred years ago, in 1860, there were 817,000 more gainful workers employed in agriculture than there are today. Each census from 1820 to the present has found a smaller percentage employed in agriculture and a larger percentage in nonagricultural pursuits, until today only 8% of gainful workers in the United States are still employed in the agricultural field, while 92% are in nonagricultural lines. The 8% still employed in agriculture is still too high. If the number of gainful workers on farms continues to decrease during the next 10 years at the trend which has been definitely established, the number of gainful workers employed on farms in 1970 would not exceed 4 million. This means that during the next 10 years we should see more than 1-1/3 million additional workers leave the farms for the cities. A smaller percentage of our gainful workers can produce all of the food products that can be consumed in the United States and that can be exported at world prices.

In spite of the dwindling farm population, many politicians are much more concerned with the farm vote than they are with the urban vote, and as a result we have continued to subsidize the farmer in an effort to make it possible for

him to stay on the farm. That this subsidy has not accomplished its purpose is apparent from the fact that the rate of decline of farm gainful workers has been accelerating. All it apparently has succeeded in doing is produce an unmanageable surplus of farm products at the taxpayers' expense. We must stop this wasteful practice and eventually allow farm prices to reach their level in the market place. This will probably mean that the 1-1/3 million workers who will leave the farms in the next 10 years will be those who have tried to operate on marginal land with insufficient capital. Just as the corner grocer passed out of the picture in the 1930's, the small, inefficient farmer will continue to pass out of the picture in the 1960's. The tears we shed regarding his plight will be no more effective in keeping the inefficient high-cost producer on the farm than they have been during the past 140 years.

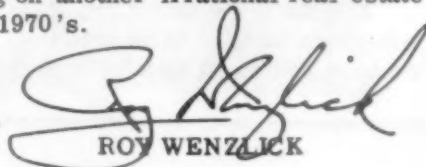
As the small farm passes out, good land will be assembled into larger and larger tracts. These tracts will be operated by the most efficient type of labor-saving machinery and, with the application of additional capital in fertilizer and labor, will yield a greater output per acre. Since the values of farm lands depend primarily on the net income which can be secured from their use, very poor lands will go down in price and lands which can be operated efficiently by large-scale methods will probably increase further in value. The number of acres per farm will continue to increase.

A fifth factor which must be weighed rather heavily in any estimates of the 1960's is the tremendous producing capacity in all lines which we have built up in the United States. Intensive research and the application of large amounts of capital through labor-saving machinery have now increased production to the point where we must choose between greatly increased standards of living and greatly increased leisure time, or spending a greater percentage of our income on insuring our world position.

Were it not for this greatly increased producing capacity, I would be very pessimistic about the 1960's. Undoubtedly, whether we like it or not we are going to have to spend a great deal more than we have in the past on defense and for all items which will increase our ability to protect our way of life. Fortunately, our producing capacity is increasing so rapidly that we need not worry that Russia, or any other potential competitor, will outproduce us in the foreseeable future. I have not been convinced by those who try to insist that Russian strides are so great that Khrushchev can make good his boast of acting as the official mortician for the Free World. I would agree with Richard Nixon that Russia will not outproduce us during this century.

If we can keep a sound money policy we can afford in the United States the necessary amounts for defense and still enjoy the highest standards of living the world has ever known, considerably higher than those we now enjoy.

This should insure the future of real estate, but it seems to me that the age composition of the population will not bring on another irrational real estate boom until the very late 1960's or the early 1970's.



ROY WENZLICK

